

## **MINUTES OF MEETING**

### **STATE OF WISCONSIN JOINT INFORMATIONAL MEETING TEACHERS RETIREMENT, WISCONSIN RETIREMENT, AND EMPLOYEE TRUST FUNDS BOARD**

**Thursday, September 26, 2002**

**Sheraton Madison Hotel  
706 John Nolen Drive  
Madison, Wisconsin**

#### **BOARD PRESENT:**

Ted Bauer, WR Board  
Ted Bratanow, TR Board  
John Brown, ETF and Vice-Chair, WR Board  
Sherry Brown, ETF Board  
Jefferson Davis, Secretary, WR Board  
Reginald Delwiche, TR Board  
Suzanne Doemel, TR Board  
Barbara Ermeling, WR Board  
Stephen Frankel, ETF Board  
Donald Ganther, TR Board  
James Gruentzel, ETF Board  
Irena Macek, ETF and TR Board  
Wayne McCaffery, Chair, TR and ETF Board  
Eileen Mallow (*representing Connie O'Connell, WR Board*)  
Lon Mishler, TR Board  
Robert Niendorf, Secretary, ETF Board and Vice-Chair, TR Board  
Gerald Pahl, TR Board  
Dennis Pratt, TR Board  
Nancy Thompson, ETF and Secretary, TR Board  
John Vincent (*representing Peter Fox, ETF Board*)  
Cynthia Van Bogaert, ETF Board  
Marilyn Wigdahl, Chair, WR and Chair, ETF Board  
David Wiltgen, TR Board

#### **BOARD NOT PRESENT:**

Wayne Koessl, Vice-Chair, ETF Board and WR Board  
James Tripp, TR Board

#### **PARTICIPATING ETF STAFF:**

Eric Stanchfield, Secretary  
Dave Mills, Deputy Secretary  
Julie Reneau, Administrator, Division of Retirement Services  
Debbi Bronson, Acting Board Liaison  
Christina Licari, Board Liaison  
Pam Henning, Director, Office of Strategic Services

#### **OTHERS PRESENT:**

Sue Chamberlain, University of Wisconsin System Administration  
Rick Champagne, Legislative Reference Bureau  
Sandy Drew, State of Wisconsin Investment Board

Kendra Eppler, Legislative Audit Bureau  
Bill Ford, Legislative Council  
Dave Hinrichs, Department of Employee Trust Funds  
Keith Johnson, State of Wisconsin Investment Board  
Ken Johnson, State of Wisconsin Investment Board  
Ed Kehl, Wisconsin Coalition of Annuitants  
John Kranz, Department of Administration  
Nancy Ketterhagen, Department of Employee Trust Funds  
Jean Ledford, State of Wisconsin Investment Board  
Patricia Lipton, State of Wisconsin Investment Board  
Tony Mason, Legislative Fiscal Bureau  
Brian Murphy, Gabriel, Roeder, Smith & Company  
Paul Ostrowski, Department of Employment Relations  
Linda Owen, Department of Employee Trust Funds  
John Parr, Wisconsin Professional Police Association  
Shelly Schueller, Department of Employee Trust Funds  
Mel Sensenbrenner, State Engineering Association  
Dave Short, Department of Employee Trust Funds  
Anne Spurley, Blumenfeld & Associates  
Ken Stelzig, Wisconsin Educators Association Council – Retired  
Kari Jo Zika, Department of Employee Trust Funds

Marilyn Wigdahl, Chair, Wisconsin Retirement Board and Employee Trust Funds Board, called the meeting to order at 9:37 a.m.

### **CONSIDERATION OF MINUTES OF THE JUNE 20, 2002 MEETING**

***Motion: Mr. Mishler moved approval of the minutes of the June 20, 2002, meeting as submitted by staff. Ms. Doemel seconded the motion, which passed without objection on a voice vote.***

### **2003 MEETING DATES**

Ms. Licari proposed the following meeting dates and locations for 2003. It was noted that these dates would be presented to each Board for approval at their individual meetings.

|                         |   |
|-------------------------|---|
| <b>Thursday, Friday</b> | <b>March 20-21, 2002 (Sheraton Madison Hotel)</b>     |
| <b>Thursday, Friday</b> | <b>June 19-20, 2002 (Sheraton Madison Hotel)</b>      |
| <b>Thursday, Friday</b> | <b>September 25-26, 2002 (Sheraton Madison Hotel)</b> |
| <b>Thursday, Friday</b> | <b>December 11-12, 2002 (Sheraton Madison Hotel)</b>  |

### **LEGISLATIVE REPORT AND BUDGET UPDATE**

Ms. Henning began by introducing the Department's new Director of Legislation and Planning, Vicki Poole.

#### ***Budget Adjustment Bill***

Ms. Henning presented members with an update on the Budget Adjustment Bill as it affects the Department and benefit programs administered by the Department. Specific items noted and discussed include:

- Suspending the state contribution to fund Sick Leave Conversion Credit Program (ASLCC) and the Supplemental Health Insurance Conversion Credit Program (SHICC)
- Continuing the Private Employer Health Care Coverage Program
- Conforming Wisconsin State income tax laws to the federal Economic Growth and Tax Reconciliation Relief Act of 2001 for purposes of pension legislation
- Implementing a state employee voluntary furlough program

Ms. Henning also noted several budget proposals that were not included in the final Budget Adjustment Bill:

- Requiring state employees to contribute a minimum of \$10/month for single and \$20/month for family coverage under the state group health insurance plan
- Requiring part-time state employee 50% premium contribution under the state group health insurance plan
- Reducing the amount of accumulated sick leave that each state employee could earn for the ASLCC and SHICC programs
- Eliminating the employer contribution towards the Income Continuation Insurance Program

In addition, Ms. Henning noted that while the State of Wisconsin Investment Board venture capital guideline remained in the final budget, the Governor vetoed the requirement for specific locations.

### ***Legislative Report***

Ms. Henning updated members on current federal legislation regarding the National Employee Savings and Trust Equity Guarantee Act (S. 1971) which passed on July 11, 2002; the Pension Security Act (H.R. 3762) which passed on April 11, 2002; and the Temporary and Proposed Regulations Related to Required Minimum Distributions from Defined Benefit Plans, which is scheduled for a public hearing on October 9, 2002. The Department's chief legal counsel, Rob Weber, has submitted a request to present testimony at the public hearing regarding the problems that the Department sees with the minimum distribution rule.

Ms. Henning also noted that the Internal Revenue Service (IRS) and the Treasury Department are seeking comments on issues relating to phased retirement arrangements under qualified defined benefit plans that would allow workers at or near retirement age to pare down their schedule or workload to ease into retirement. Comments are due to the IRS on January 1, 2003.

### ***2003-2005 Biennial Budget Request***

A copy of the budget request cover letter that was submitted to Department of Administration Secretary George Lightbourn was provided to members as a handout. Ms. Henning provided members with a synopsis of the Department's budget request. Budget request items specifically noted and discussed were:

- Direct Service Staffing (Critical Customer Service Improvements and Customer Service Call Center)
- New Initiatives (Manager of Strategic Health Policy and Manager of Collaborative Purchasing)
- Employer Compliance Reviews
- Non-Construction Costs for State Office Building Addition
- Information Technology (Completion of the Benefit Payments System Project)
- Other (Postage and Forms Budget and Sum Sufficient Appropriation)

The following Fiscal and Position Summary was included in the report.

| <b><i>Fiscal and Position Summary</i></b>                                |                                       |                                       |
|--|---------------------------------------|---------------------------------------|
|  | <b><i>Fiscal Year<br/>2001-02</i></b> | <b><i>Fiscal Year<br/>2002-03</i></b> |
| <b><i>Positions (Total FTE)</i></b>                                      | 26.8                                  | 27.8                                  |
| <i>Permanent</i>   | 24.3                                  | 25.3                                  |
| <i>New Project</i>   | 2.5                                   | 2.5                                   |
| <b><i>Funding</i></b>  |                                       |                                       |
| <i>Total SEG Funding Requested</i>                                       | \$1,783,300                           | \$2,558,600                           |
| <i>One-Time Funding</i>  | \$1,818,600                           | \$937,200                             |
|  |                                       |                                       |
| <i>Total Budget (SEG)</i>  | \$3,601,900*                          | \$3,495,800*                          |
|  |                                       |                                       |
| <i>Total Budget (GPR) – Benefit<br/>Supplements for Older Annuitants</i> | \$2,965,500*                          | \$2,504,300*                          |

\*These figures represent items shown in the budget summary. The Department's total budget, including all positions, supplies, etc., is \$20,823,300 for fiscal year 2004 and \$20,717,200 for fiscal year 2005.

Ms. Reneau introduced Christina Licari as the new Retirement Boards Liaison and also welcomed Debbi Bronson who has been assisting in the transition and training of new staff.

### **Miscellaneous**

#### ***Act 11 Update***

Ms. Reneau presented an update on the current status of 1999 Wisconsin Act 11 implementation. The Department continues the process with key efforts in two areas: backlog of calculations and variable system implementation. Ms. Reneau noted that the Department has reached 79% completion of total benefit adjustments needed as a result of Act 11. The Department expects to complete all manual processing by the beginning of 2003. Ms. Reneau also noted that there has been significant progress regarding final annuity calculations. Final calculations as of the end of August 2002 were being processed within 15 months; at the same time last year, final calculations were being processed within 20 months.\_

#### ***Benefit Payment System***

Ms. Reneau presented a status report on the Benefit Payments System (BPS) development. Ms. Reneau noted that while a minor variance in the progress schedule has been experienced, the project is approximately 16% complete. Of the eight specifically defined project milestones, the BPS team is scheduled to complete Milestone 2 in early September 2002. Ms. Reneau also provided members with information regarding risk assessment and mitigation plans and noted that the independent project monitor, MAXIMUS, reports monthly to the Secretary and Deputy Secretary on the risk assessment plan and status. One significant project issue is the pending approval by the Department of Electronic Government (DEG) on the level of security that the Department of Employee Trust Funds (DETF) is requiring to ensure the security and integrity of the system. Final resolution of this matter is anticipated in September 2002.

#### ***Cost Effectiveness Measurement***

Ms. Reneau reported on the results of the Cost Effectiveness Measurement Inc. (CEM) Benefit Administration Benchmarking Analysis for the time period of July 2000 through June 2001. This is

the third year that the Department has taken part in this study. The Department was compared to a peer group of twenty-five U.S. public pension systems. Ms. Reneau noted that the study results continue to show a direct correlation between higher service levels and cost. The Department uses the CEM findings as part of supporting documentation for the biennial budget process and to enhance the Department's ability to provide improved service to members.

*(The Board took a break at 10:43. Ms. Wigdahl announced that the State of Wisconsin Investment Board update would take place immediately after the break, followed by the actuarial report.)*

## **EDUCATIONAL TOPIC**

### ***State of Wisconsin Investment Board Update***

Four members of the State of Wisconsin Investment Board (SWIB) staff participated in the presentation to the Board. Patricia Lipton, Executive Director, reported on investment results and future planning; Jean Ledford, Chief Investment Officer - Public Equities, provided an equities market update; Keith Johnson, Chief Legal Counsel, reported on corporate governance issues and Ken Johnson, Chief Operating Officer, reported on SWIB topics in the news.

## **ACTUARIAL REPORT**

Brian Murphy, Gabriel, Roeder, Smith & Company (GRS) presented the report on the *Wisconsin Retirement System Gain/Loss Analysis of Experience Among Active Members During Calendar Year 2001*. A major point that Mr. Murphy made during his presentation was that residual effects of 1999 Wisconsin Act 11 will put upward pressure on contribution rates in the future. Contributing factors include increased volatility in asset levels due to the \$4 billion transfer from the Transaction Amortization Account to the Market Recognition Account, enhanced benefit levels, changes in actuarial assumptions and potential 2002 investment losses. Mr. Murphy also noted that contribution rates are relatively low in comparison to historical rates, especially considering the level of benefits provided.

## **ADJOURNMENT**

***Motion: Ms. Thompson moved adjournment. Mr. Frankel seconded the motion which passed without objection on a voice vote.***

The Joint Informational Meeting adjourned at 12:02 p.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Nancy Thompson, Secretary  
Teachers Retirement Board